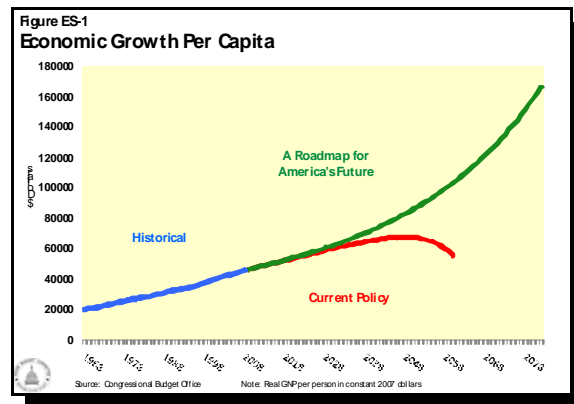


## EXECUTIVE SUMMARY

### INTRODUCTION

- The proposal *A Roadmap for America's Future* achieves three key objectives:
  - *Health and Retirement Security.* It assures universal access to health insurance, and rescues and strengthens Medicare, Medicaid, and Social Security – allowing them to fulfill their missions and making them *permanently* solvent.
  - *Lift the Debt Burden.* It returns Federal spending growth to sustainable levels, and lifts the huge projected debt burden looming over future generations.
  - *American Jobs and Business Competitiveness.* It promotes solid, sustained economic growth that ensures Americans keep more of what they earn, and levels the playing field for U.S. businesses to compete with foreign businesses.
- These objectives cannot be met under current policies. The U.S. faces an unsustainable path of Federal Government spending, levels of projected debt that threaten to bankrupt the country, trillions of dollars of unfunded liabilities in the government's major benefit programs, and an accelerating erosion of health care and retirement security. These trends threaten the U.S. economy's ability to continue raising living standards, or to compete in an increasingly international marketplace.
- These challenges also create an historic opportunity to transform the Federal Government to the realities of the 21<sup>st</sup> century.



### MEETING THE CHALLENGE

#### Health Care

- The U.S. spends more than \$2.1 trillion per year, roughly 15.9 percent of U.S. gross domestic product [GDP], on health care – about twice as much as any other

industrialized country. Medical costs are rising at about 6.7 percent per year, significantly faster than the growth of inflation and real GDP, and at current rates are projected to consume nearly half of all economic resources during this century. These rising costs are the main reason roughly 47 million Americans lack health insurance coverage.

- A key component of the problem is the Federal tax code's exclusion for employer-provider health insurance, which shields consumers from the true costs of medical care, and has evolved into an expensive, inflexible, and unfair subsidy.
- Rapidly rising health costs also drive the unsustainable rates of spending in the Federal Government's two major health entitlements, Medicare and Medicaid. Without reform, Medicare and Medicaid face financial collapse. Medicare in particular would require a doubling of income taxes, an immediate reduction in benefits, or some combination of the two just to keep pace.

### **Retirement**

- As soon as 2017, Social Security will have to begin redeeming the trust fund bonds that have accumulated in recent decades, forcing one of four options: squeezing other government programs, sharply raising taxes, cutting benefits, or running large budget deficits. By 2041, the Social Security Trust Fund will be exhausted and the program will be unable to pay all benefits promised to seniors. Without reform, benefits will have to be cut by 22 percent, or taxes raised by 28 percent.
- The main problem is demographic – the result of the forthcoming baby-boom retirements and lengthening life spans. Today there are only 3.3 workers for each Social Security beneficiary, and that number is projected to fall to 2.2 by 2030, and continue dropping thereafter. These figures compare with the 42 workers per Social Security-eligible retiree in 1935, and 16 workers per beneficiary in 1950.
- Without changes in the program, the combination of demographics and scheduled benefit increases will drive Social Security spending upward throughout the century from its current level of 4.3 percent of GDP.

### **Unfunded Liabilities**

- The trends in these Federal entitlement programs are driving the growth of what are often called “unfunded liabilities.”
  - Medicare has an unfunded liability of \$36 trillion over the next 75 years, or about \$317,000 per U.S. household. In just the next 5 years, by 2013, Medicare's unfunded liability is projected to grow by 33 percent, to \$48 trillion – or about \$412,402 per household.

- When Social Security and Medicare are taken together, the total unfunded liability is \$40 trillion, or about \$353,000 per household. By 2013, that total will grow to \$54 trillion, or \$474,077 per household.

### The International Marketplace

- With the deployment of broadband technology and a host of other technological advancements, the U.S. economy is increasingly interrelated with the international economy. The force of competition is fierce, with countries such as India and China playing especially vigorous roles. Virtually no worker or industry is immune from these new competitive realities.
- To support continued prosperity and rising standards of living, it is crucial for the U.S. to embrace policies that will promote its leadership in the international marketplace, and to acknowledge the increasing importance of individual freedom and free markets.

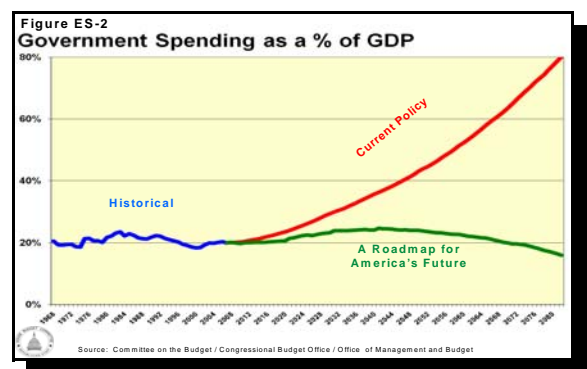
### The Need to Act Now

- Each year of delay makes the problem more intractable and the needed corrections more difficult to implement. Delay also causes government debt to rise, exacerbates uncertainty, and raises the cost of interest on the national debt.
- Acting promptly avoids an otherwise inevitable crisis, and provides time for Americans to adjust to the needed changes.

### A CHOICE OF TWO FUTURES

- The trends described above translate into one of two potential futures for the U.S.

- The status quo leads to a level of government spending, financed by taxes or debt, that will cripple the U.S. economy, depriving future working families of the their potential prosperity, and future retirees of the very benefits government promises.



- The other path transforms health care, Federal entitlements, and Federal taxes; restrains the growth of government spending to sustainable levels; and fulfills America's promises from one generation to another.

- The latter is the course of *A Roadmap for America's Future*.

## GUIDING PRINCIPLES

- This proposal is built on four guiding principles:
  - *Comprehensiveness.* Because America’s major domestic challenges are interrelated, they cannot be solved with piecemeal, incremental “fixes.” Successfully addressing them requires a *comprehensive* approach – one that energizes the productive capacities of Americans, to generate sustained economic growth.
  - *Ownership.* The proposal is built on the moral and economic principle of personal ownership. The obvious benefit is a nation in which more and more people become active participants in preserving the hope and promise of a prosperous country.
  - *Security.* The proposal recognizes that some face chronic or temporary limitations, making it difficult for them to navigate successfully in the market. Therefore the plan repairs gaps in America’s social safety net and places these programs on a path of fiscal sustainability.
  - *Competitiveness.* Moderating health care spending without rationing services, restraining the growth of government, and expanding ownership in America’s free enterprise system are essential to America’s ability to compete in the international marketplace. The Federal tax code also needs reform to boost incentives for growth and productivity.

## A ROADMAP FOR AMERICA’S FUTURE

### The Health Care Marketplace

- The plan promotes personal ownership of health insurance coverage by leveling the playing field between those with employer-sponsored health coverage and those who purchase health coverage in the individual market. Every American (except those enrolled in Medicare or a military health plan) will have the option of receiving a refundable tax credit – \$2,500 for individuals and \$5,000 for families – to pay for health coverage.
- The plan allows each individual to use the refundable tax credit toward the purchase of health insurance in *any* State, greatly expanding the choices of coverage available, and encouraging competition and diversity among insurers.
- To promote transparency in health care quality and price information, the proposal restructures the current Agency for Healthcare Research and Quality [AHRQ] and removes it from the Department of Health and Human Services. The new agency, renamed the Healthcare Services Commission [HSC] – which will operate similarly to the Securities and Exchange Commission and the Financial Accounting Standards Board – will enhance the quality, and reduce the cost of health care services through the publication and enforcement of quality and price information.

- Among the benefits of these health care reforms:
  - *Broad Availability.* Individuals without income tax liability are still eligible for the credit, which is both refundable and advanceable.
  - *Responsive Care for the Chronically Ill.* State high-risk pools will provide coverage for those with chronic medical conditions, protecting them from going bankrupt due to catastrophic illnesses. In the process, this reform will help stabilize premiums in other group health plans.
  - *Portability.* Individuals will be able to take their health insurance from job to job, or State to State.
  - *A More Responsive Market.* Placing those decisions in the hands of individuals and families will encourage insurance companies to offer more variety, higher quality, and more cost-effective plans to meet the needs of their customers.
  - *Greater Opportunity for Small-Business Coverage.* The refundable tax credit allows employees to take responsibility for purchasing their own health care, but also allows small businesses to make defined contributions to accounts – such as Health Savings Accounts [HSAs].
  - *Enhanced Health Care Quality.* With individuals controlling their own health care dollars, providers will be encouraged to compete for business by increasing quality and charging more competitive prices. For providers, increased competition will mean they are less likely to be locked in to prices set by insurance plans.
- The proposal establishes a modern market-driven approach to building a National Health Information Network, giving every American ownership over his or her own medical record, and transitioning the health care industry from paper-based to electronic medical records – improving health care quality, reducing medical errors, and ensuring that appropriate information is easily accessible.

### **Modernizing Medicaid**

- The proposal modernizes Medicaid and strengthens the health care safety net by reforming high-risk pools, and giving States maximum flexibility to tailor Medicaid programs to the specific needs of their populations.
- It allows Medicaid recipients to take part in the same variety of options and high-quality care available to everyone through the tax credit option, removing the stigma Medicaid recipients face.
- It allows States to choose whether their Medicaid populations participate in the tax credit or continue in their current Medicaid programs. States that select the latter receive their Federal Medical Assistance Percentage [FMAP] funding in the

form of a block grant, indexed to inflation by a blended rate of the consumer price index [CPI] and the medical care component of the CPI.

### **Medicare**

- The proposal fulfills the mission of Medicare by creating a new program in which future beneficiaries (those now 55 or younger) receive income-related government payments to choose the most affordable coverage that best suits their needs, while preserving the existing Medicare program for those older than 55.
  - For those 55 and younger, the plan creates a new Medicare Program that will provide payments of up to \$9,500— adjusted for inflation and based on income, with low-income individuals receiving greater support – for the purchase of private health coverage. The payment also is risk-adjusted, so those with greater medical needs receive a higher payment.
  - The plan establishes and funds medical savings accounts [MSAs] for low-income beneficiaries, while continuing to allow all beneficiaries, regardless of income, to set up tax-free MSAs.
- The combination will fully restore Medicare’s promise to provide seniors the assistance they need to have access to health care services. The proposal also combines the Part A and Part B trust funds to streamline financing, and creates a new measure of program solvency as a percentage of GDP.
- The plan also provides enhanced benefits for those with low incomes. While any Medicare beneficiary, regardless of income level, is able to set up a tax-free Medical Savings Account [MSA] if he or she desires, the new Medicare Program establishes and funds MSAs for low-income beneficiaries.
- Following consultation with the Office of the Actuary of the Centers for Medicare and Medicaid Services, this plan is found to make Medicare permanently solvent.

### **Social Security**

- As with Medicare, the proposal preserves the existing Social Security program for those 55 or older.
- For those under 55, it offers the option of investing over more than one-third of their current Social Security taxes into personal retirement accounts, similar to the Thrift Savings Plan available to Federal employees.
- The plan includes a property right to those personal accounts, so account holders can pass on these assets to their heirs.

- In addition, the plan guarantees that total benefits from the personal accounts will not be less than they would have been under the current system.
- According for the actuary for the Social Security administration, these enhancements, combined with a more realistic measure of growth in Social Security's initial benefits and an eventual modernization of the retirement age, will make Social Security *permanently* solvent.

### **Tax Reform**

- The current individual income tax code is needlessly complex, unfair, and inefficient. This proposal corrects those flaws. It eliminates the alternative minimum tax [AMT], and offers individual income taxpayers a choice of how to pay their taxes – through existing law, or through a simplified tax with just two rates and virtually no special tax deductions, credits, or exclusions (except the health care tax credit).
  - Simplified tax rates are 10 percent on income up to \$100,000 for joint filers, and \$50,000 for single filers; and 25 percent on taxable income above these amounts.
  - The simplified tax also includes a generous standard deduction and personal exemption (totaling \$39,000 for a family of four).
- The proposal also puts an end to the double taxation of savings. The current system essentially taxes savings twice – individuals pay tax on their earnings and, if they choose to invest those after-tax funds, they must pay another tax on the return from their savings (i.e. interest, capital gains or dividends). This plan eliminates the second layer of taxation. The plan also eliminates the death tax.
- The proposal replaces the corporate tax – currently the second highest in the industrialized world – with a border-adjustable Business Consumption Tax [BCT] of 8.5 percent. The plan also allows immediate expensing of investments.
- Among the benefits of the BCT are the following:
  - It will reverse the current uncompetitive business tax climate, which has forced many U.S. companies to relocate abroad.
  - International businesses will have a greater incentive to invest in the U.S. and expand production here, creating jobs.
  - It will bring earnings and profits back to the U.S. The high statutory corporate income tax in the U.S. has led to multinational corporations shifting profits to lower-tax countries, essentially shifting the tax base overseas. Many U.S. businesses also delay the repatriation of earnings from their foreign affiliates.

## **BUDGET ENFORCEMENT**

- The proposal establishes a binding cap on total spending as a percentage of gross domestic product at the spending levels projected to result from this legislation.
- It creates mechanisms for regular congressional review of entitlement programs, and automatic spending-restraint mechanisms if Congress fails to take needed actions to stay within the spending cap.
- It also includes a supermajority vote in Congress to raise tax revenue above 18.5 percent of GDP.

## **APPENDICES**

- Appendix I summarizes details of the legislative proposal, by title.
- Appendix II explains fiscal assumptions and methodology, and describes the projected path of Federal spending over the next 75 years under *A Roadmap for America's Future*.